

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2019-290-WS**

<b>IN RE:</b> Application of Blue Granite Water    ) Company for Approval to Adjust    ) Rate Schedules and Increase Rates    )	<b>PETITION FOR CLARIFICATION</b> <b>AND</b> <b>REHEARING/RECONSIDERATION</b>
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Pursuant to S.C. Code § 58-5-330 and S.C. Code Ann. Regs. 103-825, 103-854, and applicable South Carolina law, the South Carolina Office of Regulatory Staff (“ORS”) hereby respectfully petitions the Public Service Commission of South Carolina (“Commission”) for clarification of certain findings and conclusions in Order No. 2020-306 (“Order”) and rehearing or reconsideration. ORS largely supports the Order and recognizes that this case was challenging; however, ORS recommends that the Commission should consider clarifying its ruling on certain issues. Specifically, ORS respectfully requests the Commission clarify its ruling regarding Adjustment No. 8<sup>1</sup> and reconsider its decision to include the unamortized balance of Adjustment No. 8 in rate base, which thereby allows Blue Granite Water Company (“Blue Granite”) the opportunity to earn its weighted cost of capital on the Purchased Water and Wastewater Treatment Deferral or the Purchased Water and Sewer Expenses Going Forward adjustment. ORS also seeks clarification as to whether certain aspects of the Order dealing with Adjustment No. 8 may have been included by mistake. In addition, ORS seeks clarification of the Commission’s determination regarding Adjustment No. 16a - recovery of post-test year legal expenses as they relate to Docket

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<sup>1</sup> Adjustment No. 8 is the Purchased Water and Sewer adjustment.

Nos. 2018-358-WS and 2018-361-WS and Adjustment No. 18 - the appropriate amount to remove corresponding to the Blue Granite's Greenville Office rent. Should the Commission reconsider all of the points discussed below, Blue Granite's revenue requirement will increase.

**1. Adjustment No. 8 – Purchased Water and Sewer**

ORS respectfully requests limited clarification of the Commission's ruling regarding Adjustment No. 8, adjustment to purchased water and sewer expenses. ORS only seeks reconsideration of Commission Adjustment No. 8 to the extent the Commission determines that, upon clarification, the total sum of expenses that correlate to Adjustment Nos. 8(a) and 8(b) need to be altered or the unamortized portion of Adjustment No. 8 should be removed from the calculation of rate base.

Adjustment No. 8 consisted of two distinct accounting adjustments. Adjustment No. 8a (the "Purchased Water and Wastewater Treatment Deferral") is an adjustment to reduce the deferral account Blue Granite had been authorized to create to record purchased water and wastewater treatment costs resulting from rate increases by third-party water and sewer treatment providers. Tr. p. 763.9, ll. 9-18. The total deferred amount for which Blue Granite sought recovery was \$2,803,968. Tr. p. 763.9, ll. 14-15. ORS and Blue Granite proposed to amortize the total deferred amount over three years. The South Carolina Department of Consumer Affairs proposed an amortization period of five years. Among other changes that ORS proposed to the Purchased Water and Wastewater Treatment Deferral, ORS proposed limiting recovery of non-revenue water to 10%. Tr. p. 1128.3, ll. 5-22. Cumulatively, the changes proposed by ORS resulted in recovery of the Purchased Water and Wastewater Treatment Deferral that totaled \$2,563,596. *Id.* ORS's proposed Adjustment No. 8a was \$854,532, which was \$2,563,596 amortized over three years. Tr. p. 1128.3, ll. 5-6. Regarding Adjustment No. 8a, the Commission "[found] ORS's adjustment just

and reasonable to limit the customer's responsibility for non-revenue water expenses to 10% in each subdivision for Blue Granite Service Territories 1 and 2....” Order, p. 83.

Adjustment No. 8b (referred to as “Purchased Water and Sewer Expenses Going Forward”), in the amount of \$2,324,292 was made, in part, to adjust test year expenses for purchased water and sewer expenses to allow the Company recovery of the expenses going forward at approximately the current levels experienced by the Company, with recovery of non-revenue water limited to 10%. Tr. p. 1128.4, ll. 1-20, Tr. p. 1129.2, l. 17. According to the Order, the Commission found ORS's Adjustment 8b to be “just and reasonable to limit the customer's responsibility for non-revenue water expenses to 10% in each subdivision and to adopt the adjustment of \$271,930 to reduce purchased water expenses for all Blue Granite's service territories.” Order, p. 84. ORS respectfully asserts the correct amount of non-revenue water is \$251,311, as updated in witness Briseno's Revised Surrebuttal testimony. Tr. p. 1129.2, ll. 15-17. ORS's proposed adjustment of \$2,324,292 constituted a reduction of the Company's proposed adjustment of \$2,640,647. Tr. p. 1128.4, ll. 1-3. The \$2,324,292 was not an amortized amount and reflected the \$251,311 reduction for the non-revenue water limit of 10%. Tr. p. 1129.2, ll. 15-17.

ORS's proposed Adjustment No. 8 appeared as an adjustment of \$3,178,824 to Purchased Sewer and Water – Pass Through Maintenance Expense in exhibit 1 to ORS's proposed order and consisted of Adjustment No. 8a, which equals \$854,532, plus Adjustment No. 8b, which equals \$2,324,292.

The sum of Commission Adjustment No. 8 is also comprised of Adjustment Nos. 8a and 8b. The Commission ordered that Adjustment No. 8, in its entirety, be amortized over five years with one year's expense in the amount of \$635,765 placed in expenses and the unamortized remainder, in the amount of \$2,543,059, placed in a Regulatory Asset. Order No. 2020-306, p. 83.

The Order erroneously characterizes *all* of Adjustment No. 8 as corresponding wholly to purchased water and sewer deferrals; however, only Adjustment No. 8a is limited to the purchased water and sewer deferral. Adjustment No. 8b does not correspond to the deferral and reflects the accounting treatment necessary to establish the purchased water and sewer expenses *going-forward* to current expense levels experienced by the Company.

ORS respectfully requests clarification regarding the accounting treatment authorized by the Commission, which amortized the sum of the Purchased Water and Wastewater Treatment Deferral, as adjusted by ORS, and ORS's proposed Purchased Water and Sewer Expenses Going Forward adjustment over five years. The sum of the Purchased Water and Wastewater Treatment Deferral, as adjusted by ORS, and ORS's proposed Purchased Water and Sewer Expenses Going Forward adjustment equals \$4,887,888. As a result, if the Commission intended to amortize to the total of the Purchased Water and Wastewater Treatment Deferral, as adjusted by ORS, and ORS's proposed Purchased Water and Sewer Expenses Going Forward adjustment over five years, the adjustment should be \$977,578,<sup>2</sup> and the adjustment calculated by the Commission should be reconsidered. However, calculating the adjustment in this manner effectively limits the recovery through Blue Granite's rates to only a portion of its current annual purchased water and sewer expenses (even after a reduction to limit recovery of non-revenue water to 10%). Additionally, the accounting treatment authorized by the Commission's Order would contribute to an ever-growing deferral balance even if rates charged by third-party water and sewer treatment providers remain unchanged.

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<sup>2</sup>The sum of the Purchased Water and Wastewater Treatment Deferral, as adjusted by ORS, \$2,563,596, and ORS's proposed Purchased Water and Sewer Expenses Going adjustment, \$2,324,292, amortized over five years, equals \$977,578.

Moreover, ORS recommends the Commission should remove the remaining unamortized balance of Adjustment No. 8, which equals four-fifths of \$4,887,888 or \$3,910,310, from rate base.<sup>3</sup> ORS respectfully requests the Commission clarify and reconsider its accounting treatment to include in Blue Granite's rate base calculation the \$2,543,059 described by the Commission as the unamortized balance of purchased water and sewer treatment expenses.<sup>4</sup> ORS respectfully asserts that no part of the Purchased Water and Wastewater Treatment Deferral or the Purchased Water and Sewer Expenses Going Forward adjustment should be included in the calculation of Blue Granite's rate base. No party provided evidence to support awarding Blue Granite the ability to earn a return of weighted average cost of capital on these operating expenses. Witness DeStefano testified that,

should the Commission not approve an annual pass-through mechanism as part of this proceeding, the Company should be authorized to accrue carrying costs on its purchased water/sewer treatment deferrals *going forward* until time of recovery at the Company's *authorized cost of debt*. (DeStefano Rebuttal, p. 21, ll. 6-9). (emphasis added)

The Company, thus, only requested carrying costs at its authorized cost of debt on any *new* deferrals for purchased water/sewer treatment expenses going forward, not on any part of the existing Purchased Water and Wastewater Treatment Deferral or the Purchased Water and Sewer Expenses Going Forward adjustment. ORS opposed the approval of carrying costs requested by DeStefano. Accordingly, the record contains no basis on which the Commission may rely in awarding the Company the opportunity to earn its weighted average cost of capital on the

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<sup>3</sup> Exhibit 1 to Order No. 2020-306 indicates that the Commission included in Blue Granite's rate base the unamortized balance of adjustment 8, thereby giving Blue Granite the opportunity to earn its weighted average cost of capital on the unamortized balance.

<sup>4</sup> The Commission included in rate base its ordered unamortized amount of \$2,543,059. This is reflected on exhibit 1 to the Order, as the Commission's Deferred Charges adjustment to Original Cost Rate Base is \$7,362,033, which is \$2,543,059 more than the \$4,818,974 ORS had listed in its proposed order exhibit 1. This means Blue Granite will have the opportunity to earn its weighted average cost of capital on the ordered unamortized amount of \$2,543,059. It is unclear from the Order whether this \$2,543,059 constitutes part of the Purchased Water and Wastewater Treatment Deferral or the Purchased Water and Sewer Expenses Going Forward adjustment or both.

unamortized balance of its purchased water and sewer deferral expenses or the Purchased Water and Sewer Expenses Going Forward adjustment. While ORS asserts no carrying costs should be awarded, if any such costs are awarded, they should be at the Company's cost of debt as requested by Company witness DeStefano on any new deferral amounts going forward.

If the Commission intended to adopt ORS's proposed accounting treatment related to Adjustment No. 8 but amortize the Purchased Water and Wastewater Treatment Deferral over five years instead of three, then the total for Adjustment No. 8 should be \$2,837,012. This figure is calculated by adding one-fifth of the adjusted Purchased Water and Wastewater Treatment Deferral, which is \$512,720, to ORS's proposed Adjustment No. 8b, which is \$2,324,292. ORS asserts there should be no carrying costs on the remaining four-fifths of the Purchased Water and Wastewater Treatment Deferral as no such costs were authorized by the Commission when the deferral was established and approved in Blue Granite's 2015 rate case in Order No. 2015-876. Further, no party requested carrying costs in this proceeding be awarded on the Purchased Water and Wastewater Treatment deferral balance. In addition, as discussed by ORS witness Sandonato, allowing recovery of carrying costs will negatively impact customers by increasing the amount to be recovered from them. Tr. p. 1214.9, ll. 5-16. Purchased water and sewer treatment expenses are similar to other expenses on which carrying costs are not allowed such as power, contract labor, and chemicals. *Id.* The approval of a deferral account allowed Blue Granite the opportunity to recover expenses outside of the test year. *Id.* That benefit accrued to Blue Granite and is sufficient; the addition of carry costs is neither necessary nor beneficial to customers. *Id.*

If the Commission did intend to include the unamortized purchased water and sewer deferral balance in deferred charges in rate base, then ORS asserts the above corrections should be considered. The total deferral balance for Adjustment No. 8a was \$2,563,596; therefore, if the

Commission intends to place four-fifths into rate base, the correct unamortized purchased water and sewer deferral balance in deferred charges in rate base would equal \$2,050,878. As a result, when added to the deferred charges as calculated in Commission Adjustment No. 34, the total deferred charges adjustment for rate base becomes \$6,869,852.<sup>5</sup>

The ORS, therefore, respectfully requests that the Commission clarify the accounting treatment authorized in its Order regarding Adjustment No. 8 and reconsider its decision, if appropriate, to correct the stated sums. Additionally, ORS respectfully requests that the Commission reconsider its decision to include the unamortized balance of Adjustment No. 8 in the calculation of Blue Granite's rate base, which allows Blue Granite the opportunity to earn its weighted average cost of capital on part of the Purchased Water and Wastewater Treatment Deferral or the Purchased Water and Sewer Expenses Going Forward adjustment.

Further, paragraph 30 on pages on 130 to 131 of Order No. 2020-306 states:

[w]ith regard to additional adjustment to the Company's "Maintenance Expenses - Purchased Water and Sewer Expense," the Commission finds and determines that Blue Granite is authorized to amortize this expense over five (5) years and that one year's amortized expense of \$635,765 will be included in expenses in this rate case. The unamortized portion, a total of \$2,119,000, will be placed in a Regulatory Asset to be recovered annually.

A similar paragraph appears on page 55 of the Order. It appears these paragraphs may have been included in error, as they conflict with the paragraphs preceding them in the Order and are not consistent with the Commission's ruling regarding Adjustment No. 8. Also, the \$2,119,000 figure listed in paragraph 30 and on page 55 is not reflected on the Commission's reconciliation of the Blue Granite's revenue requirement that is Exhibit 1 to the Order. ORS, therefore, respectfully

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<sup>5</sup> Commission Adjustment 34 delineates \$4,818,974 for unamortized balances of decommissioned assets and excess deferred income taxes. When that figure is added to the \$2,050,878 unamortized purchased water and sewer deferral balance, the corrected total deferred charges figure is \$6,869,852.

recommends that paragraph 30 on pages 130 and 131 and the similar paragraph on page 55, along with any other similar language, be removed from the Order.

## **2. Adjustment No. 16a-Rate Case Expenses**

ORS respectfully requests clarification and reconsideration of the amount ordered by Commission Adjustment No. 16a, Rate Case Expenses. The Commission disallowed legal expenses associated with Docket Nos. 2018-358-WS and 2018-361-WS. Order, p. 94. However, based upon the calculations provided by the Commission,<sup>6</sup> it seems the Commission may have inadvertently included, while intending to exclude, \$16,132 of post-test year legal expenses associated with the above dockets from its calculation of rate case expenses amortized over a three-year period. Tr. p. 1116.2, l. 9. As a result, the Commission's amortization of rate case expenses over a three-year period includes \$5,377 per year associated with Docket Nos. 2018-358-WS and 2018-361-WS. ORS respectfully requests that the Commission clarify and reconsider the amount that corresponds to its Adjustment 16a.

## **3. Greenville Office – Rent Expense**

ORS respectfully seeks clarification limited to the dollar amount corresponding to the Commission's determination of the Company's allowable rent expense. Order, pp. 58, 96-97. The Commission's ruling excludes the Greenville Office rent expense as well as other rent expenses.

While ORS did propose an adjustment to the Company's per books rent expense in the amount of \$84,839, that adjustment was comprised of costs associated with the Greenville Office, as well as other rent expenses associated with the Company's Rock Hill Office and warehouse, Anderson Office, Greenville Office, Water Service Corporation Public Storage, and Water Service Corporation Office. Tr. p. 1115.13, ll. 4-8; Tr. p. 1201.7, ln. 20-22. The \$84,839 appears as a

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<sup>6</sup> See Order Exhibit 1.

proposed Rent adjustment under General Expenses on exhibit 1 to ORS's proposed order. The Commission's Order adopted a Rent adjustment under General Expenses of \$0. Order No. 2020-306, p. 58. If the Commission intended only to disallow "the additional revenue sought by Blue Granite related to the Greenville Office Move, Upfit and Rent/Lease,"<sup>7</sup> then ORS's proposed rent expense adjustment of \$84,839 must be adjusted by only the amount of the adjusted Greenville Office rent expense to avoid excluding rent expenses other than for the Greenville Office.

According to the Company, the annual rent for the Greenville Office is \$84,685. *See* Tr. p. 1201.12, ll. 6-7. Incorporating a downward adjustment of \$11,019,<sup>8</sup> made to correctly allocate lease expense for two employees that were assigned to the Atlantic Division based on Company response to ORS Audit Request #17, the amount representing only the *Greenville Office rent* expense equals \$73,665.<sup>9</sup> ORS, therefore, respectfully requests clarification of the amount that corresponds to the Commission adjustment for the Greenville Office Move, Upfit and Rent Expense. ORS submits that if the Commission intended to exclude only the Greenville Office rent expense from recovery, the appropriate adjustment to the Company's per books rent expense is \$11,174 (\$84,839 minus \$73,665), and the *total* amount disallowed relating to the Greenville Office upfit and rent expense is \$579,890.<sup>10</sup>

### **Conclusion**

For the reasons stated herein, ORS respectfully requests the Commission clarify its ruling with regard to certain issues. ORS seeks this clarification to bring these issues to the Commission's attention and to provide the opportunity for the Commission to clarify its reasoning. ORS seeks

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<sup>7</sup>See Order, p. 58.

<sup>8</sup>See Tr. p. 1115.13, ll. 9-14.

<sup>9</sup> Annual Greenville Office rent of \$84,685 minus an allocation of \$11,019 equals an annual rent expense of \$73,665.

<sup>10</sup> The total amount related to the Greenville Office upfit and rent expense equals the sum of the adjusted Greenville Office rent, \$73,665, the figure corresponding to employees assigned to the Atlantic Division, \$11,019, and the Greenville Office upfit costs of \$495,206.

clarification regarding Adjustment No. 8 but only requests reconsideration to the extent the Commission determines that upon clarification the total sum of expenses that correlate to Adjustment Nos. 8a and 8b need to be altered or that the unamortized portion of Adjustment No. 8 should be taken out of rate base. ORS also seeks clarification of the Commission's determination regarding Adjustment No. 16a - recovery of post-test year legal expenses as they relate to Docket Nos. 2018-358-WS and 2018-361-WS and Adjustment No. 18 - the appropriate amount to remove corresponding to the Company's Greenville Office rent.

Dated this 29<sup>th</sup> day of April 2020.

/s/Andrew Bateman

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